

Some of the shortcomings of the National Spending Rule have been highlighted previously by the Council (2021). These include the Rule focusing on “core” spending rather than general government spending. The Council also called for the National Spending Rule to be put on a statutory footing.

Overall, the separation of spending into core and non-core elements has become unhelpful. Measures that appear to be permanent are being counted as non-core and the definitions have become extremely blurred (Box D). A better approach would be to focus on general government spending, net of tax measures. The National Spending Rule should also focus on general government spending net of tax measures.

There may be times where unusual circumstances would warrant spending above what the Rule would allow. Occasional deviations from the Rule may be justifiable on these grounds. It should be up to the government of the day to explain why this is the case. Even in these instances, the focus should remain on overall net general government spending, rather than various dubious definitions of what is included in core spending.

On the revenue side, the Tax Policy Changes document, which outlines all the revenue policy changes has in the past incorporated the impacts of PRSI changes on revenue.²⁰ However, on this occasion, the announced increase in PRSI rates is completely absent from the document and the only reference to this change is in Minister Donohoe’s speech.

Box D: Fiscal gimmickry strikes back

Fiscal gimmicks are the use of creative accounting techniques to make a government’s fiscal numbers adhere to fiscal rules or look more favourable than they are. As fiscal rules become more binding, the use of fiscal gimmicks tends to increase (Alt *et al.*, 2014; Koen and van den Noord, 2005; von Hagen and Wolff, 2006). The use of creative accounting techniques also tends to increase before elections (Reischmann, 2016).

Ireland is no exception, and with the introduction of a National Spending rule, we have seen a rise in fiscal gimmicks used by the Government. This box looks at some key examples in *Budget 2024* but this is by no means an exhaustive list.

Windfall capital investment

The 2023 *Summer Economic Statement* included for the first time a line item for spending labelled “Windfall capital investment”. This is additional capital spending that is to occur contingent on windfall corporation tax receipts remaining at elevated levels.

This spending was not classified as core or non-core expenditure. As a result, it was not included in the Government’s calculations for the National Spending Rule. This was despite this spending being a permanent—and increasing—feature for the entirety of the Government’s forecast horizon.

²⁰ See <https://www.gov.ie/en/publication/de3d4-budget-2024-taxation-measures/>.

By treating this capital spending in that manner, the Government presented figures that suggested a smaller breach of the National Spending Rule than would otherwise be the case.

Despite the windfall capital investment being earmarked for “projects that are ready for development” (Department of Finance, 2023a), this funding was not allocated to any specific department on budget day.

Non-core spending

The concept of non-core spending was introduced in response to the Covid-19 pandemic and Brexit to separate out “crisis management measures to address the challenges posed by Covid-19 and Brexit, while preserving and maintaining existing levels of service within core expenditure programmes” (Pre-Budget Expenditure Update 2020). Since then, the scope of non-core measures has been broadened to include spending on Ukrainian refugees and, at times, cost of living measures.²¹ The Government sets its National Spending Rule on the basis of core spending. As a result, all measures that are classified as non-core are excluded, whether they are likely to recur or not.

While there may be a case for some measures to be treated in this fashion for a period of time, there is no case for doing this indefinitely and there is a risk that this classification is abused to make the Government’s fiscal numbers look more favourable.

Non-core spending – Covid 19 spending

The Expenditure Report states that “[Non-core Covid-19 spending] has been increased by €0.5 billion for Budget 2024 to fund the post pandemic **escalation of health sector costs, including increased activity and demand across acute hospitals**”. These areas of spending mentioned are permanent and not likely to recede in value. In other words, health spending is structurally higher. The Government included this spending as part of non-core, and therefore falling out of what they consider part of the National Spending Rule.

For 2024, €150 million non-core Covid-19 spending is allocated to the Department of Transport. This is to fund the continuation of the 20% public transport fare reduction, the Young Adult Card reduction and the 90-minute fare into 2024. It is unclear how the continuation of these measures is related to the Covid-19 pandemic and not related to other strategic government objectives.

Once again, classifying this spending in this manner, limits the amount by which the Government breaches the National Spending Rule, and shows the Government plans in a more favourable light.

Non-core spending – Ukrainian refugee spending

Outside of spending directly related to Ukrainian refugees, but incorporated under the heading for Ukrainian spending, some €180 million is allocated to meet spending on the International Protection Accommodation Service. This is spending to meet the needs of additional non-Ukrainian refugees who are classified outside of the EU Temporary Protection Directive. It is unclear why this additional spending on non-Ukrainian refugees should be included as Ukrainian refugee spending and classified as non-core, given that the majority of these refugees are seeking protection for reasons unrelated to the war in Ukraine.²² While the increase occurred over the same time period as the war in Ukraine, the increase appears structural and should be treated in the same fashion as other structural expenditures.

²¹ Cost-of-living spending has fallen under non-core allocations at certain times, while at other times it is classified separately to core, and non-core spending.

²² Since January 2022, the number of non-Ukrainian refugees seeking protection in Ireland has increased almost three-fold. The nationalities that have seen the largest increases are Georgian, Algerian, Nigerian, Somalian, Afghan, and Zimbabwean, in that order.